

Strategic Asset Management Planning

More than a Brokers Opinion of Value

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Valuing a property or portfolio even in the best of market conditions is a subjective exercise. This subjective exercise is only further complicated by nature of the fact that we clearly don't have the luxury of a robust commercial real estate market on our side. So my question is this: Have commercial real estate values hit the bottom, will they continue to fall, or are they already starting to recover? In many cases the answer to the aforementioned questions can vary based on the quality of the asset, the property's asset class, the type and quality of the tenant mix, the property's location, supply and demand drivers such as new construction starts, absorption and vacancy rates, capital and credit availability, and any number of other factors which make planning difficult at best.

Owning commercial property during these challenging economic times can perplex even the most savvy and sophisticated principals. It has been my experience that challenging economic times require both superior strategic planning and excellent tactical execution. That being said, I'm always amazed at the number of commercial real estate owners, individuals and institutions alike, that don't have a Strategic Asset Management Plan (SAMP) in place for their portfolio. In fact many principal owners are so truly reactive in their approach to dealing with fluid market conditions, that they don't do any planning unless they're forced to do so.

If I only had a nickel for each time in the last 2 years I've been told by owners "that there really isn't any need for planning because my hands are tied given current market conditions." As a professional real estate advisor I can state with great certainty that it is precisely when you think your options are limited, that the need for strategic planning is most paramount. Moreover, unlike robust markets that will be forgiving of operational mistakes, tactical execution must be near perfect levels to survive down markets, and consistently great tactical execution only occurs when a sound strategic plan has been put in play.

In the text that follows I'm going to make the case for a paradigm shift in traditional business logic used by commercial real estate owners. I'm going to challenge the reader of this article to justify operating in a status quo fashion, when what they should be doing is just the opposite.

My justification for the thoughts I'm about to share are born out of real world experience and the practicality of common sense. The reality is that those who invest in a strategic planning process simply do better than those who don't. Why would anyone choose to be among the latter group as opposed to the former? Beats me, but it happens every day...

Commercial real estate brokers and advisers are often called upon by clients to provide an opinion of value on an individual property or portfolio of properties. These reports are most commonly referred to as BOVs (Brokers Opinion of Value), BPOs (Brokers Price Opinion), or CMAs (Competitive Market Analysis). The depth and quality of these documents vary from practitioner to practitioner, sometimes being little more than a page or two in length. These reports often constitute a baseline for an owner's decision as what to do with an asset or portfolio. These reports are also often given away by brokers as a professional courtesy in hope of gaining the opportunity to sell the property when the timing is right. It is my opinion that this entire process is an exercise in frivolity as demonstrated by its inherently flawed business logic.

If as a property owner you put any faith in a thin document, which is normally prepared within a matter of days, at no cost, and with little if any input or collaboration with you, then you'll get what you deserve. Just because many industry practitioners participate in this lunacy doesn't mean that it still isn't lunacy...let me try and drive this point home with the following examples:

- If a CEO asked his attorney to provide a tax opinion for free, not only would this be unlikely to happen, but if it did, the disclaimers would be longer than the document itself, and it would ultimately be a worthless document.
- If the board of directors of a corporation asked an investment banking firm to provide a business valuation on a short time frame, solely based upon market comparables, and at no cost, not only would the valuation be useless, but the board would likely be sued if it was used to justify sell-side pricing.
- If you were to hire a consulting firm to prepare a strategic plan they certainly wouldn't do it without a retainer, and you would expect something substantial in return for your investment of time and money into the process.

You see, expecting something for nothing is a useless endeavor that wastes time for all concerned parties. Moreover, just because you can get someone to buy into a process because "that is the way things are done," doesn't mean you should. From my perspective, the days of providing free BOVs as a loss leader to get a listing is so yesterday...Clients in today's market expect more from their professional advisors. Savvy clients are looking for an edge; they demand value, and they are willing to invest in a process that leads to a demonstrated return on investment.

In my practice I have moved away from providing free BOVs, and have created a collaborative process based upon solid business logic that insures the development of a strategic asset management plan that covers the full lifecycle of a real estate investment. The process doesn't take a retroactive approach to valuation based upon historical data at a defined point in time; rather it is a proactive approach to maximizing current operating income as well as aggressively managing the asset for maximum valuation at a planned point in

the future. These two contrasting processes represent polar opposite ends of the spectrum, and generate two completely different outcomes. The moral of the story is this...you can go old school hoping to receive something for nothing, or you can modernize your approach and receive tremendous value for a reasonable investment. The choice is yours...choose wisely.

Please take a moment to review my bio on the following page and feel free to reach me at any of the contact points listed below if I can offer any assistance to you. Thank you for your consideration.

About the Author

Edward A. Kearney serves as a Managing Director for Sperry Van Ness specializing in the sale and leasing of industrial, retail and office properties in Palm Beach, Broward, Martin and St. Lucie Counties in South Florida. He also has extensive experience in investment analysis, landlord and tenant representation and property tax abatement.

Prior to joining Sperry Van Ness, Kearney was President of his own property tax consulting firm. He annually represented more \$1 billion of commercial real property and \$250 million of tangible personal property before the taxing authorities throughout the State of Florida. Previously, he spent 18 years in Denver, Colorado, where he developed and owned commercial real estate and owned and operated several businesses.

Kearney has earned his CCIM designation, is the President-Elect of the Palm Beach County Realtors Commercial Alliance, is a member of the Forum Club of Palm Beach, the Chamber of Commerce of the Northern Palm Beaches and is a founding member of the Florida Association of Property Tax Professionals (FAPTP).

He received a Bachelor's degree from Manhattan College, New York City, and served as an Explosive Ordnance Disposal and Diving Officer in the United States Navy.

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